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U.S. INTELLIGENCE ANALYSIS AND
THE OIL ISSUE, 1973-1974

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(II)

"U.S. INTELLIGENCE ANALYSIS AND THE OIL ISSUE, 1973-1974"

The Senate Select Committee on Intelligence recently approved a 66-page classified staff study entitled, "U.S. Intelligence Analysis and the Oil Issue, 1973-1974." The statement of findings which follows is drawn from that study, which was prepared by the Subcommittee on Collection, Production and Quality, chaired by Senator Adlai Stevenson.

The classified study was based on: overseas field reports from the State Department and the intelligence agencies; finished intelligence publications from the period from the State Department's Bureau of Intelligence and Research and the Central Intelligence Agency; interviews with approximately 30 intelligence community analysts; 20 senior and middle-level policy officials; 10 oil company executives and financial analysts; and public sources from the period, including specialized petroleum publications, newspapers, congressional hearings, and articles from foreign affairs journals.

The case study on the oil issue examined the intelligence community's performance in three specific aspects of the oil question:

I. THE POSITION OF SAUDI ARABIA IN THE SPRING AND SUMMER OF 1973 ON THE ISSUE OF USING OIL AS A POLITICAL WEAPON

Traditionally, Saudi Arabia and the United States maintained strong ties. The mutual dependency created by the Saudis' position as major suppliers of U.S. oil imports and the U.S. role in providing military aid to Saudi Arabia made for a comfortable Saudi-American relationship. Yet, by October 1973, Saudi Arabia was in the vanguard among the Arab states in calling for the use of oil as a political weapon against the United States.

How well did the U.S. intelligence community recognize the distinct changes that were evolving in the Saudi posture?

II. THE SUSTAINABILITY OF PRICES FOLLOWING THE OIL EMBARGO

Between October 1973 and January 1974, the Organization of Petroleum Exporting Countries (OPEC) raised oil prices by 400 percent.¹ With fluctuations in supply and demand and with little previous knowledge of the relative elasticity of oil prices, long-term pricing was difficult to gauge. Through 1974 and beyond, OPEC maintained the price of oil at approximately \$11 per barrel.

How well did the intelligence community gauge the ability of the Arab states to sustain oil prices at unprecedented levels?

¹ OPEC was organized in 1960, and at that time, its member states included: Abu Dhabi, Algeria, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, and Venezuela. In November 1973, Ecuador became a member and Gabon an associate member.

III. THE IMPACT OF OIL PRICE INCREASES ON THE WORLD ECONOMY

The initial problem of maintaining oil supply in the wake of the October 1973 embargo and reduced production proved to be of far less consequence than the disruption which escalating oil prices caused in the international monetary structure and in the world economy.

How well did the intelligence community address the issue of the effects of OPEC actions on the international economy?

The principal conclusions from the classified committee staff study are as follows:

CONCLUSIONS

A. THE PERFORMANCE OF SPECIALIZED PUBLIC SOURCES ON THE THREE ISSUES ADDRESSED IN THE STUDY EQUALLED OR EXCEEDED THAT OF THE INTELLIGENCE COMMUNITY²

On the issue of the Saudi use of oil as a political weapon, public sources reported more consistently on changing intentions of the Saudis over the period from April to August 1973 than did the intelligence community. Although some pieces of finished intelligence assessed the ongoing shift in Saudi attitudes, most of the intelligence community's reporting did not do so. A policymaker could easily have read this reporting without sensing the importance of Saudi developments. On the question of price stability, following the October 1973 war and subsequent price increases, public sources concluded in general that oil prices would remain at their new levels. In contrast, the intelligence agencies anticipated a fall in prices, and conveyed the sense that Saudi Arabia alone could and would reverse the increases. On the issue of the impact of oil increases on the international economy, public sources and intelligence community sources averaged the same in terms of breadth and depth of coverage; neither gave extensive coverage to the issue.

B. THE ABSENCE OF EVALUATION OF SAUDI POLICY CHANGES WAS NOT A FAULT OF INADEQUATE COLLECTION. ON THE CONTRARY, DATA FROM THE FIELD, THOUGH UNEVEN IN QUALITY, GAVE STRONG INDICATIONS OF ACTUAL SAUDI POLICY SHIFTS

A detailed study showed that the intelligence community produced a wealth of raw intelligence data derived from a variety of sources. That data provided information on foreign economic policy, political intentions, and the internal dynamics of foreign governments.

C. DURING THE PERIOD PRECEDING THE OIL CRISIS IN OCTOBER 1973, ANALYSTS UNDERUTILIZED THE RANGE OF FIELD DATA AVAILABLE TO THEM

Measured against the scope and substance of collected data, analysis fell short. Analysts tended to rely on embassy reporting, frequently excluding other intelligence information. Given the nature of such reporting, intelligence analysts were captives of the embassies' own limitations.

Evidence suggests that disproportionate reliance on embassy reporting was not unique to intelligence related to the oil crisis. Committee staff interviews reveal that political analysts throughout the community frequently regard embassy reporting as their principal

² Public sources included the *Petroleum Intelligence Weekly*, the *London Financial Times*, and the *Wall Street Journal*.

overseas source. When this occurs, it means that information derived from other sources, for which a costly and complex apparatus exists, is frequently relegated to secondary information—if it is used at all.

The reason for the preference derives in part from the form of State Department reporting. State's cables are consistently presented in coherent paragraphs as concise summaries of events or developments and rarely exceed two or three pages. By comparison, the CIA's Clandestine Service reports are often far more detailed and require integration and assessment by the analysts. Likewise, other forms of intelligence, which are by nature disaggregated and fragmented, also require sustained, independent evaluations by analysts.

Within the CIA, the longstanding tensions between the Directorate for Operations (DDO) and the Directorate for Intelligence (DDI) affected the interaction between the two components. Three basic factors limited the exchange between the DDO and the DDI and ultimately, impeded the full use of clandestine data: (1) problems of sources—the DDI's need to verify the credibility of sources and the DDO's need to protect the identity of sources; (2) fundamental differences in mission—political action and espionage vs. the dissemination of information; and (3) negative perceptions—analysts' perceptions of DDO case officers as "operators" and case officers' perceptions of analysts as "academicians." In large part these factors reflect the CIA's institutional dichotomy.

D. AT NO POINT DID THE INTELLIGENCE COMMUNITY PRODUCE SERIOUS OR SUSTAINED DISCUSSION OF ALTERNATIVES TO THE JUDGMENTS THAT EMERGED

The intelligence process is intended to encourage reconsideration of widely held ideas, as analysts with varying specialties consider a problem and transmit their analysis through the hierarchy via branch chiefs and division chiefs. The committee's staff study of the oil issue revealed that although information supporting different interpretations was readily available, fixed views dominated the intelligence process. First, analysts stressed the continuation of the status quo in Saudi policy toward the United States. Thus, the intelligence community's identification of changing Saudi intentions was limited. Second, the question of oil price levels was analyzed in the context of a narrow supply-and-demand framework, which tended to overlook both political influences and such economic factors as elasticities of supply and demand. As a result, between January and June of 1974, analysts adhered to the position that OPEC oil prices would fall. These fixed views suggest that the system did not encourage airing dissent or developing alternative views regarding either substance or methods of analysis.

E. THE FINISHED INTELLIGENCE EFFORT EMPHASIZED PRODUCTION RATHER THAN ANALYSIS

Committee staff interviews in connection with this study and related studies indicate that the character of routine finished intelligence publications, which consist of daily and weekly classified reports, has created an independent momentum that closely parallels that of a

newspaper. With pressures to meet daily and weekly deadlines and to be "current" in terms of coverage, an analyst is virtually compelled to write a paragraph that describes an event rather than one which interprets the event's importance. Clearly, the latter is more difficult and requires more time. Analysts also produce a limited number of nonperiodic memoranda addressed to selected policy officials. These memoranda frequently have a greater analytic content. However, the routine publications absorb by far the greatest proportion of analysts' time and attention.

Measured in terms of the character and the volume of finished intelligence on the oil question, events dominated evaluation. Descriptions of what was happening—Arab investments in Western Europe, increased costs to consumer countries, Saudi Arabia's assumption of a moderate stance on prices after the war—were summarized and presented in a clear, consistent manner. However, the interpretation of events, that is, whether the Saudis alone could determine OPEC price levels or what increased costs meant for the long-term balance of payments outlook was weak.

F. INTERNAL INCENTIVES CONTRIBUTED TO THE NATURE OF THE ANALYSIS

Analysts are judged largely by their ability "to put out the work," that is, by the number of articles they submit for the daily and weekly publications. In the words of one analyst, "My promotion depends on the number of lines of type that I generate for my Branch Chief." Incentives to produce contribute to the current intelligence orientation of the community's analytic effort. With a premium on quick production, summarizing events predominates over analyzing developments.

G. INTELLIGENCE COMMUNITY ANALYSIS DISPLAYED LIMITED INTEGRATION OF POLITICAL AND ECONOMIC FACTORS

Political aspects of relationships among OPEC nations and the internal dynamics of the Saudi Government had a significant bearing on economic aspects of the oil question. Yet these factors were not consistently integrated into the community's economic analysis.

The issue of integration was and is not limited to the oil question. Organizational arrangements impeded the analytic process. The analytic components were organized around offices, each of which treated a separate discipline, with only limited substantive interaction among them. Such a structure and the consequent delineation of policy issues did not easily accommodate those subject areas that cut across several disciplines. Although there was frequent "coordination" among political and economic analysts, this effort consisted primarily of having articles "cleared." Obviously, the distinction between "coordination" and real integration of political and economic factors is substantial.

The select committee is pleased to note that constructive managerial and organizational changes have been underway within the

intelligence community in the last year which are directed at better integrating political and economic analysis.

The select committee was pleased by the seriousness with which the CIA treated this staff study and recognizes that issues like the one addressed in the study are both difficult and subject to differences in judgment. It is the committee's hope that studies such as this will contribute to the goal shared by the Congress and the intelligence community to improve intelligence production and analysis.³

³ The select committee circulated the classified version of the staff study to intelligence community agencies and to other executive branch departments. Following the submission of the committee staff report to the CIA, the Agency provided additional information to the committee which had not been available earlier. The conclusions in this statement reflect consideration of CIA comments and additional material.

The CIA's response to the committee's staff study included detailed examination of the text and findings. The CIA response agreed with those findings in a number of areas: underutilization of some intelligence sources; inadequate integration of political and economic analysis; and organizational structures and incentives which promoted intelligence production at the expense of analysis. The CIA disagreed with the report's conclusions on the superior performance of public sources. The CIA response emphasized that the reason for many of the CIA's estimates was that analysts did not anticipate the Yom Kippur War and concluded that in the absence of war, Saudi Arabia and the other Arab nations would not employ oil as a political weapon.